Strategic focus
Our Hospital division executes our strategic objective of providing best-quality patient care in the most effective and efficient manner, consistently achieving the best quality outcomes for our patients.

Our hospitals comprise a mix of technologically advanced multi-disciplinary tertiary institutions and specialist centres of excellence. Our centres of excellence are highly respected and used by patients from all across SA, neighbouring countries and further afield in Africa. These include the only accredited level 1 and 2 trauma units in SA. All Netcare SA hospitals are benchmarked against the Department of Health’s National Core Standards.

Our hospitals support dedicated, passionate and committed specialists and employees who make a positive difference in the lives of our patients. We continue to establish and maintain strategic partnerships with doctors, funders, suppliers and government.

Through our PPPs in SA and Lesotho, we contribute to national healthcare by utilising our operational experience and intellectual capital in targeted high-need areas. In SA, our four PPPs represent 323 beds in our hospital portfolio. When concessions reach their end, the beds managed by Netcare will be handed back to the respective provincial departments of health, enabling them to utilise the improved facilities for state patients. The Lesotho PPP is an 18-year concession and represents 425 tertiary hospital beds and a gateway clinic at the hospital, as well as three primary care clinics.

Socially beneficial outcomes
Through partnerships we have extended free access to healthcare to over 140,000 patients over 10 years through the following initiatives:

- Emergency assistance and stabilisation;
- 37 Netcare Sexual Assault Centres nationally;
- Hear for Life programme (cochlear implants);
- Johannesburg Craniofacial programme;
- Netcare Cataract programme; and
- Netcare Cleft Lip and Palate programme.

We have supported efforts to cut the high infant mortality rate in the Eastern Cape through our PPP with the Provincial Department of Health. The South African Breastmilk Reserve (SABR) co-ordinates the collection and redistribution of life-saving donated breastmilk to critically ill babies. SABR began distributing donated breastmilk collected at Uitenhage’s Netcare Cuyler Hospital in 2007 in a pilot facility.
Operating performance

Up to and including the third quarter of 2015, the Hospital division recorded an increase in patient days of 1.7% compared to the same period in 2014. However, the fourth quarter was characterised by reduced patient day growth as a function of increased competition. In this financial year, six greenfield acute hospitals opened in competition to Netcare hospitals during the 2015 financial year.

Hospitals and Emergency services achieved a 6.2% increase in revenue in 2015, largely due to tariff revisions, marginal growth in patient days and a slightly lower case mix. Capital expenditure was dominated by expansion projects, including the completion of two greenfield hospitals.

The low patient day growth of 0.2% for 2015, together with the addition of 584 new beds to the hospital portfolio, resulted in marginal decreases to full-week and week-end occupancy to 67.8% (2014: 68.9%) and 73.8% (2014: 75.0%) respectively. The average length of stay increased 2.8% compared to 2014. An analysis of paid patient days indicates a slight change in caseload mix, with higher growth in medical admissions and improved utilisation of ICUs, offset by lower maternity ward utilisation. As a percentage of inpatient admissions, surgical cases contributed over 60% of admissions. Net revenue per patient day increased by 6.0%. Price inflation related to tariff increases and the increased cost of drugs and surgical supplies. The cost of consumables was well contained as a result of our efforts to standardise product lines. The balance of the price per patient day inflation increase was attributable to changes in caseload mix.

Despite the marginal improvement in patient days, overhead expenses were well controlled, with Hospital and Emergency services posting EBITDA of R3 837 million. This represents growth of 9.7%, at an improved margin of 70 basis points from 23.1% in 2014 to 23.8%, attributed to operational leverage and business process improvements.

Outstanding debtor days were at 28.4 days in 2015 despite slow payments from the Compensation for Occupational Injuries and Diseases (COID) fund, which had fallen behind during the year due to their implementation of new systems. However, significant progress has been made on collections from COID during September 2015 and subsequent to year-end. Debtor’s days outstanding excluding COID remained unchanged from 2014 at 20.4 days. The quality of the medical scheme debtor’s book has again improved.

Organisational growth

We strive to ensure that our business is agile enough to take advantage of changes in private healthcare demand and to evolve how healthcare is delivered in SA. In 2015, we added 584 beds to our network, bringing the total number of registered beds to 9 996, a 6.1% increase compared to 2014. This positions us well for future growth.

Our investment in expanding the hospital network is based on a scientific, demographic, demand-driven model, supported by full financial viability models with internal hurdle rate targets. We look at areas where we are not represented or where there is a high-growth area.

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Increasing our competitive advantage

The Netcare Milpark Hospital expansion project will enhance the flow and functionality of the hospital, providing for self-service and increasing our competitive edge through new services. Netcare Milpark Hospital is recognised as one of the eight centres of excellence including a one-of-a-kind trauma and burns unit. The expansion project will add these new centres of excellence, being a cancer centre, a cardiothoracic centre with a dedicated ICU and a transplant centre. We have applied for licences for additional beds for the cardiology, trauma and medical ICU to align with increasing demand. The full isolation ICU will be utilised in day-to-day management of high-risk infectious patients. A new surgical high care unit will also increase services offered at the hospital. The new 760-bay parking deck has been completed, and additional future capacity will be available in the top two floors.

The Netcare Christian Barnard Memorial Hospital has been relocated to a new purpose-built building located on the Cape Town foreshore. The new hospital is a dedicated emergency department with 24/5 paid access and decontamination area, a radiology department and an additional 7 000m² of consulting suites for doctors. The hospital will cater for 16 disciplines, including neurosurgery, cardiothoracic surgery, transplants, trauma, general surgery, a breast care centre of excellence and urology, including robotic assisted surgical programmes.

A number of green design principles have been used in the construction of the hospital, from elevators with energy-saving regenerative drives to a double-skin façade to provide efficient insulation. The heating, ventilation and air conditioning systems are energy efficient and the hot water generation system utilises waste heat recovered from the hospital’s chillers. The hospital has also been designed with risk and infection control in mind, with air filtration systems in theatres and ICU, as well as isolation rooms.

We acquired the 24-bed Ceres Hospital in the Western Cape and 69 beds were added in the Phase 2 build of our Netcare Waterfall Hospital in Midrand. Of the 226 bariatric beds added at existing facilities, 216 were in hospital wards trading at 80% to 90% occupancy where demand exceeds current capacity. New beds added in 2015 will only contribute to the Hospital division’s performance from 2016 as most were opened towards the end of the 2015 financial year.

We continually optimise capacity across the portfolio, converting beds from low occupancy disciplines to higher demand units, either in the same hospital or another hospital in the surrounding area, according to demand trends. However, converting beds depends on our ability to secure hospital bed licences from provincial departments of health, which can sometimes be challenging. In 2015, we converted 94 (2014: 65) underutilised beds, mainly to disciplines such as adult medical and surgical beds, as well as paediatric and maternity beds. We also look for additional opportunities to drive capacity utilisation, by ensuring that specific facilities are multi-purpose. A good example is our hybrid theatres, which can accommodate a range of surgical procedures. In October 2014, we dispensed of our 50% shareholding in the 22-bed Optimised Ophthalmology Hospital located in Alberton, Gauteng. For 2016 and 2017, we will focus on growing into the capacity in our new facilities. We also have at least 44 additional beds planned for existing facilities. The construction of the new 24A-bed Netcare Christian Barnard Memorial Hospital in Cape Town is on track and scheduled to open in early December 2016. Major extensions to our flagship trauma 1 hospital in Milpark are progressing well. There are still opportunities for further greenfield investment in SA and we will continue to apply for licences based on our assessments of demand for various disciplines. We will also convert approximately 50 underutilised beds during 2016 to disciplines with higher demand.

The weakness of the Rand against major currencies continues to impact capital costs, as most equipment and technology is only available from advanced economies. While the Group manages this impact where possible, escalating costs, constraints on medical innovation and long lead times remain a reality in procuring advanced medical technology.

Operational excellence

Streamlined processes and containing costs

During 2015, we added further resources to accelerate the digitalisation of the Hospital division as part of our process improvement projects, which are improving data collection and supporting the objectives of the Triple Aim.

In a maturing market, top-line growth increases are unlikely to be as high as in the past. This requires that we continually focus on our cost base to achieve sustainable growth. Our investment in SAP is expected to provide substantial efficiencies over the next five years. We are using this robust enterprise resource system to control fixed costs and standardise our protocols and processes. Optimal management of procurement, stock levels and issuing pharmacy items leads to better cost management, accurate invoicing and sound clinical practice.

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As a hospital operator, we operate 24 hours a day, 365 days of the year. As occupancy levels fluctuate, especially with lower occupancies over weekends and holidays, we must be agile in matching our staffing levels to the number of patients. In addition, we are using science skills and must ensure that we have the right people in the right place providing the right level of care at any given time. We have implemented an automated ward planning tool to manage our direct nursing costs and nursing

Acutes. Staff scheduling takes place twice a day across 455 wards in SA. The tool has generated margin efficiencies from better utilisation of nursing staff and improved the balance in staff complement between permanent and agency staff. In 2015, we started rolling out this tool to our theatres.

Our optimisation projects facilitate automatic billing for stock used in theatre or in the ward. Nurses simply scan the script and medication, and the stock tool automatically updates a patient’s bill. The system also ensures that the correct drugs are administered to patients. This reduces the burden of manual administration, reducing cost and the risk of human error while freeing up nurses to focus on providing care. The system is also reducing paper consumption and supporting our efforts to eliminate stock wastage. Stock days were well managed in 2015. We are also streamlining our admission procedure to reduce the length of time a patient spends on completing administration forms, with some processes already in place and further implementation expected in 2016.

We have completed the outsourcing of our catering services, with catering being highlighted by patients as key to their comfort and recovery. We have achieved and patient satisfaction on quality and presentation of food has increased to 73.4% (2014: 71.6%) as measured by HCAPHS, an international survey instrument and data collection methodology for measuring patients’ perceptions of their hospital experience.

Asset and utilities management

Our top specialists provide highly specialised treatments and require costly and advanced medical technology. To support quality outcomes, we need to ensure these assets are maintained for optimal operation.

We have strengthened our technical services departments and started the asset management programme mentioned in last year’s report. This five-year plan encompasses a more strategic role in managing these assets and requires the listing of all our assets on SAP including a maintenance schedule for each. Maintenance plans cover both preventative and routine maintenance, in a proactive approach that mitigates the risk of assets not being available when required and increasing the lifespan of assets. The asset maintenance plan also includes a further layer of maintenance not available in the traditional asset register.

Our asset management programme aligns to our environmental sustainability programme, with more efficient use of resources also improving the bottom line. In 2013, we implemented a five-year strategy and execution plan, covering Group operations in SA, to achieve a targeted 35% real reduction in energy consumption over 10 years. To date, 42 projects have been completed in our journey to achieving this projected saving. To date, the Sustainability Committee has approved energy efficient and renewable energy projects to the value of R320 million, with completed projects having effectively avoided energy costs by around R64 million over the past two years. Green principles have been applied to the building design of the new hospitals in Pinован and Polokwane, and should collectively add an energy impact of 1.8 GWh annually, an approximate annual avoidance of 1 800 tonnes of carbon emissions.

Meters are being installed in all hospitals to establish accurate billing, measuring, verifying and reporting energy reductions. Our current projects include a national project to upgrade lighting systems in our hospital facilities, with estimated cost savings of R14 million a year. A total of R16 million has been approved for solar photovoltaic (PV) installations. Our rooftop solar PV projects will produce approximately 600kW of electricity a year by the end of 2016. Our first rooftop solar PV installation was switched on in September 2015.

We are auditing our water and waste management and use principles. Completion is expected in the second quarter of 2016. Based on the audit findings, we will develop strategies to manage risks related to water shortage and waste management.

Interventions to water supply impact business operations and potentially the ability to provide quality healthcare, which in turn could have a negative financial impact on the business. As part of our transformation strategy, we are installing water meters to monitor our optimisation
initiatives. We are investigating water efficient alternatives such as boreholes, filtering, re-use of water and rain water harvesting. The Netcare Fezeka Hospital in Pretoria and Netcare Albertino Hospital near Durban will be the first facilities to benefit from these feasibility studies.

Where the quality of water supplied to certain facilities requires additional treatment before distribution, we build on-site water recycling systems to limit our dependency on treated water from municipal utilities. For the last five years, we have spent R72 million on backup water storage. Over the next two years, R50 million to R60 million has been budgeted for further initiatives.

In 2015, we completed Phase 2 of the nationwide low-flow shower upgrade. We have also converted the reverse osmosis plants at the National Renal Care units of Netcare Sunninghill and Netcare Albertino hospitals to re-use filter flush water as grey water to flush toilets. Combined, these conversions will reduce fresh water demand by 3 044 kilolitres (kl) a year. A water-wise grey water laundry design was implemented in the new hospital in Polokwane, reducing the facility’s potable water requirements by 1 931 kl. Similarly, we are investigating ground water as a potential water supply alternative for our central laundry in Gauteng.

The recycling initiative, started in 2013, ensures accurate and robust medical waste management practices and data. Following the waste management audit, we will implement a more integrated waste management process to optimise the waste value stream. This will be rolled out to all hospital facilities over a 24-month period.

Best and safest patient care

Physician partnerships

At 30 September 2015, the total number of specialists with privileges at Netcare facilities was 2 432 (2014: 2 278). As established doctors with existing client bases are in short supply, they are highly sought after in the highly competitive healthcare environment. In 2015, 51 seasoned specialists terminated their privileges with Netcare, of which 21 took up permanent privileges in competitor facilities. However, 129 specialists (excluding the 76 specialists practising in the two new greenfield hospitals) were granted privileges in Netcare facilities, although many of them are young doctors who are still building their practices. In addition, there is an increasing trend of specialists choosing to divide their time between competing healthcare providers, known as ‘splitting’, which can reduce patient volumes at facilities.

The factors that attract specialists to a healthcare provider include the premises and medical equipment, quality of nursing care and more recently equity participation. To date, Netcare has not offered shareholding incentives to physicians. It is testament to our doctor-centric approach that we have managed to retain leading specialists, despite not offering this incentive in the past.

We continue to invest in medical technology that provides quality care and supports our specialists. During the year, we invested around R640 million in the refurbishment of facilities, as well as replacement and upgrade of medical equipment.

The Physician Advisory Boards work well as an engagement platform between doctors and Netcare, and support our efforts to continually improve services to patients and doctors. A total of 4 296 (2014: 3 735) GP visits were undertaken in 2015. We are committed to supporting and developing the skills of our healthcare professional partners in rapidly developing clinical fields. In 2015, we held 80 (2014: 88) continuous professional development events.

Enquiring quality outcomes

Through the quality leadership scorecard and our people practices can be found on page 44 to page 46 of this report and in the online SA: quality and clinical outcomes and SA: our people reports.